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288 constituting 70 per cent of the total production
433 of the whole country. In 1953, the output reached 25,561,770 bales,[33] more than double the 1949 output, but only about 65 per cent of the country's total production in that year.[34] East China again takes the lead in the production of cotton cloth. Though complete data are lacking, considerable growth has been reported under the Communist regime. If we take the production of 1947 as 100, it increased to 133 in 1950 and to 157 in 1951.[35]

288 Considerable progress has been made in
433 the development of textile machinery plants
475 since 1950. There are, at present (1955), seven plants for manufacturing textile machinery in China, of which five are state-owned and two are joint state-private enterprises. In East China, the Shanghai No. 2 Textile Machinery Works is state-owned and the China Textile Machinery Works and the Far Eastern Card Clothing Manufacturing Plant, both located in Shanghai, are joint

33. 400 pounds each.

34. Economic Weekly, Shanghai, Feb. 26, 1953, pp. 16-18; Chinese Industry, Peking, Jan. 1950, p. 37; Wen-hui Daily, Hong Kong, Oct. 1 and 6, 1953.

35. Survey of China Mainland Press, Hong Kong, U. S. Consulate General, No. 220, p. 30.

1:Stanford U. S-4, 5 1956 AF15 East China
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288 state-private industries.[36] Data on the
433 textile-machinery production of East China
475 are not available, but the total production of the seven plants during 1951-53 was reported to be 600,000 spindles and 18,500 automatic looms, with which 9 state-owned cotton textile mills have been equipped.[37]

V. CONCLUSION

178 Although East China remains a vitally important part of Communist China's industrial life and will be expected to supply both capital and consumer goods to a large segment of the country's population during the Five-Year Plan, it is no longer scheduled for intensive development in the future. There may be exceptions to this general statement, particularly in certain parts of Shantung, and possibly also in Fukien, once railway construction has established an effective overland route between Amoy and the Chekiang-Kiangsi Railway. However, on the whole, it may be said that East China's heyday in Chinese industry is over. The statement is especially true in the case of Shanghai.

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36. New China News Agency, Peking, Nov. 1, 1954.

37. Hsin-hua Yüeh-pao [New China Monthly], Peking, Feb. 1954, No. 2, pp. 169-70.

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472 The Communist authorities have adopted
438 several types of "socialist transformation": (1) the agency, (2) purchase or sale on behalf of state trading companies or supply and marketing co-operatives, (3) combined operation of a few similar retail traders, with separate accounting and finance, and (4) co-operative operation and management. In most of the rural areas throughout the East China provinces, retail traders and peddlers were transformed under these terms.[39] The income of an ordinary retailer remained low and was hardly sufficient to maintain a family on the lowest subsistence level. For example, in April 1955 in Chen-hai, Chekiang Province, the average per capita income[40] of the retail dealer in bamboo-products was only ¥16 (US$ 6.4). Private traders, unable to subsist, will change their profession sooner or later.

D. State "Capitalism"

475 Under state "capitalism," the state
438 trading companies or the supply and marketing co-operatives designate private commercial

39. Ibid., May 10, 1955, No. 5, p. 23.

40. Tsu-kuo [China Weekly], Hong Kong, Aug. 22, 1955, No. 138, p. 12; Ta-kung Daily, Tientsin, June 21, 1955.

1:Stanford U. S-4, 5 1956 AF15 East China
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475 firms as distributors for their products on
438 a commission basis. Private merchants purchase commodities from state trading companies at wholesale prices and resell them to the consumers at retail prices fixed by the state. Joint state-private ownership replaces private capitalist ownership, and the state usually invests capital in trading firms under joint management.

Early in 1955 in Shanghai, the largest city in the eastern hemisphere, wholesalers dealing in lumber, salt, and miscellaneous grains and oil cakes carried out the process of state capitalism for the trade. Through labor-capital consultations, 175 out of 220 wholesalers of the above-mentioned trades petitioned for suspension of business. Some 35 changed to retail trade, 6 changed their profession, and 4 have continued in business under state guidance.[41] Other Shanghai wholesalers dealing in steel, iron, other metals, oils, fats, pharmaceutical products, ham, preserved meats, stationery, and precision instruments underwent "socialist transformation" in the period January-April 1955.[42] It was estimated[43]

41. NCNA, Shanghai, May 14, 1955.
42. Survey of China Mainland Press, May 20, 1955, No. 1052, p. 20.
43. Ibid.

1:Stanford U. S-4, 5 1956 AF15 East China
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that some 52.3 per cent of all private wholesalers would have been transformed during the first six months of 1955.

VII. FOOD RATIONING AND GRAIN TRADE

Rationing was first applied to food grains on November 19, 1953, in a government order for the enforcement of "planned purchase and planned supply of grains," designed to secure foods required for people's livelihood and national construction and in order to stabilize food prices and eliminate food profiteering. Under this order, all businesses engaged in the sale of grain or other essential foodstuffs were, in principle, to be taken over by the state, which would determine rations and fix the official purchasing price as well as the retail selling price of various kinds of grains.[44]

In order to facilitate the work of rationing in all cities, industrial and mining districts, and in rural areas where grain is not produced in surplus, state grain markets were set up throughout the whole country. As of July 1954,

44. Far Eastern Economic Review, Hong Kong, May 12, 1955, No. 19, p. 604.

1:Stanford U. S-4, 5 1956 AF 15 E. China
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Annex "A," Subparagraph 3f, Economic Background

SOCIALIST TRANSFORMATION OF PRIVATE INDUSTRY AND COMMERCE IN EAST CHINA

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475 The socialist transformation of private industry, i.e., its gradual nationalization, was accomplished both slowly and cautiously in East China during the early years of the Communist regime. Extreme cautiousness was dictated by the following conditions, which could help or hinder the successful completion of the Communist campaign.

1. Three of China's largest industrial cities, Shanghai, Tsingtao, and Wuhsi, are in East China; Shanghai particularly has been the stronghold of private enterprise. At the time Shanghai fell, over half of the 2.3 million cotton spindles in Shanghai were privately owned; private ownership accounted for an even larger proportion of private enterprise in dyeing and weaving, machinery and chemical industries. Shanghai, the site of more than half the factories in China, also served to train technicians, managers, and skilled workers who later sought jobs in industry in other areas.

2. The accumulation of capital in East China's industry could provide a foundation for China's industrialization.

3. Lack of capital and the lack of managers and skilled technicians among the party cadres has often proved a handicap to the program of the Communist government both in China and in the Soviet Union.

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The conflict in Korea further slowed the pace of socialization for the duration, because the Communist government discovered its immediate need for the production of private industry. But the cautious policy with which the Communists extend state control over industry was accompanied by a deliberate two-way policy of infiltration: government orders were filled by private industry, and the state purchased and marketed the products of private industry. By the end of 1953, an estimated 58 per cent of the output of Shanghai's private industry was either produced for the state or marketed by it.[1] The Communists regarded the increasing dependence of private industry on the state as a preliminary step to state capitalism.

Introduction of Joint State-Private Enterprises

After the beginning of the First Five-Year Plan (October 1953) the government began to exert pressure by converting private enterprises into "joint state-private enterprises." According to the interim regulations governing joint state-private enterprises, issued in September 1954, the legal rights of private shareholders were to be protected; profits after taxes were to be allocated for reserves, workers' benefits and bonuses, interest, and shareholders' dividends; and shareholders' dividends plus remuneration for top management were to be equal to one-fourth of the

1. Ta-kung Pao [Ta-kung Daily], Tientsin, June 12, 1953.

472 gross profits. Management was shared by govern-
475 ment and private shareholders; workers also share
in the administration.

Not all private enterprises were forced to become joint state-private enterprises. All industries had to go through the procedure of application and investigation before formal approval was granted -- which permitted the government to choose only those companies it wished to transform, forcing others to declare bankruptcy or merge with larger concerns. Transformation had to be "voluntary," industry has to be "beneficial" to the national economy, and the company had to be ready for reorganization and for further improvements.

Thus, by avoiding the semblance of straight nationalization, the Communists have tried to maintain the co-operation of private industrialists. It is possible that the Communists expect the industrialists to exhaust their resources by investing all their available funds, and at the same time treat their competitors ruthlessly in order to maintain their own margin of economic security.

Socialization by Regions and by Industries

Shanghai. In Shanghai, site of the largest number of factories, the Communists first moved against key industries such as textiles, metallurgy, machinery, and chemicals; and they first picked moderate-sized concerns rather than large ones. Four well-known companies, the T'ien-yüan Electrical Chemical Works, the T'ien-li Synthetic

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474 475 Nitrogen Product Company (owned by Wu Yün-ch'u, a promoter of the chemical industry in China), the Shanghai Cement Plant (owned by O. S. Liu, prominent Shanghai entrepreneur), and the Nan-yang Tobacco Company (owned by overseas Chinese and managed by Chien Yü-chieh, first overseas Chinese to return to China to promote industry), became joint state-private enterprises as early as 1950. Perhaps these companies did not suspect that they might be used as decoys when they accepted government participation, believing that the Communists sincerely solicited their co-operation in the development of China's industry.

The following large businesses became joint state-private enterprises in the period 1953 to August 1955:

(a) all the 50 cotton mills in Shanghai, including Shen-hsin Textiles and)Textiles, largest and second-largest textile companies in Shanghai, which accounted for one-fourth of the cotton textile equipment in China;
(b) dozens of metallurgical and machine plants, including Ta-lung Machinery Works and T'ai-li Iron Works, two of Shanghai's largest;
(c) about one dozen chemical works, including the Ta-chung-hua Rubber Manufacturing Plant (largest in China), and the Kofa (K'o-fa) Pharmacy and the International Dispensary (the wo oldest pharmaceutical and cosmetics manufacturers);
(d) about six electrical-equipment manufacturing plants, including the Hua-ch'eng Electrical Equipment Manufacturing Plant and the Hsin-an Electrical Equipment Manufacturing Works.

472 More than two-hundred factories were approved
475 for transformation in July and August 1955, including many smaller manufacturing industries. It is expected that the total number to be transformed will be considerably greater.

By November 1955, about 45 per cent of the total output in value of Shanghai's private industry has become joint state-private enterprises.[2]

Enterprises which the Communists consider less essential, owned by capitalists with other properties in China and with funds abroad as well as by overseas Chinese, are subject to other tactics in an effort to hurry their bankruptcy. They are forced to keep operating with undiminished payrolls, despite the heavy financial burden this entails. The Shanghai Wool Textile Mill, for example, owned by a Chinese now residing in California, has been operating at losses exceeding US 1.5 million for the last four years. Two hundred idle employees remain on the payroll. The plant is not allowed to close or to fire workers. The owner has other properties in Shanghai and probably has funds in the United States. When all his resources are exhausted, he may "voluntarily" ask the government to take over his factory.

Foreign-owned enterprises, if profitable, must meet the demands of the workers for elaborate benefits; they must also pay high prices in order to buy sufficient raw materials to maintain production. High taxes and the impossibility of

2. New China News Agency, Shanghai, November 21, 1955.

472 remitting profits abroad add to the woes of "profit-
475 able" firms; if unprofitable, plants are kept in operation with funds from abroad until, at last, they find it necessary to surrender to the government.

Other Districts. In other parts of East China, as many private enterprises as possible were converted into joint state-private enterprises. In Kiangsu,[3] 261 industries including three big enterprises near Nanking -- the Yung-li Chemical Industries, the Chiang-nan Cement Plant, and the China Cement Plant -- have been transformed; and 330 joint enterprises in Tsingtao and Tsinan, Shantung Province, were in operation by the end of 1954. Most of these were small in assets and in size, with the exception of one cotton mill in Tsingtao and another in Tsinan.

A total of 338 industries in Chekiang,[4] from the Hangchow Power Plant, the largest, to the smallest, the handcraft scissor-making industry, have been transformed. All of the few enterprises in Fukien and Anhwei have become joint state-private concerns.

Elimination of Private Commerce

Ultimate elimination of private commerce is part of the Communists' plan for a socialist economy. This partial goal has been achieved by the gradual ousting of traders, following the establishment of a government monopoly over all foreign and most internal trade.

3. Hsiang-kang Shih-pao [Hong Kong Times], Dec. 6, 1955.
4. Ibid.

472 Import-export firms were the first victims.
475 Foreign trade was first controlled and then monopolized by the government. Private firms could do no more business, but were not allowed to close, and were continually pressed to surrender their foreign funds. Not until recently was a group of 300 Shanghai firms allowed to close, under a "collective reform" movement.

Following the establishment of the government import monopoly, wholesalers of imported commodities were forced to become agents of state trading organizations. The same fate befell former traders of "essential commodities;" 24 categories of food, edible oil, and cotton cloth were placed under unified state purchasing and marketing. The traders' capital was forcibly transferred to industry in the name of "government guidance and relief." Through the latter part of 1955, there were 621 trading firms in Shanghai which had been so affected; the capital of 157 of these, amounting to 23 million yuan, was transferred to Anhwei, Chekiang, and Hunan for use in manufacturing, animal husbandry, hotels, etc.

Of the four largest Shanghai stores, the Wing On Company, the Hsin-hsin Company, the Sincere (Hsien-shih) Company, and the Tai Sun (Ta-hsin) Company, only the first survived until November 1955, chiefly because the owners had real estate and cotton mills in Shanghai which provided funds to cover the store's deficits. The store's sales were confined to domestic products, mostly supplied by national trading companies. Heavy taxes, high wages, and lack of profit closed the other three stores shortly after the Communist took

472 over Shanghai; their business premises were con-
475 fiscated for defaulted taxes.

According to Communist statements, half of all retail shops in Shanghai (about 21,000) were eliminated, and 17,467 peddlers and stall-keepers were made salesmen for governmental trading organizations.[5]

Reactions of Industrialists and Shareholders

The Communists have used two tactics to induce enterpreneurs to co-operate with the government and to mitigate shareholders' chagrin because of their loss of income. One is to offer distinguished positions to prominent industrialists; the other is to promise 8 per cent dividends to shareholders.

The three industrialists in Shanghai who first accepted government participation in their enterprises, O. S. Liu (general manager of the Shanghai Cement Company, the Great China Match Manufacturing Company, and the Chang Wah Wool Company); Wu Yün-chu (general manager of the T'ien yüan Electro-chemical Works and the T'ien-li Synthetic Nitrogen Products Company), and Chien Yü-chieh (general manager of the Nanyang Tobacco Company), were appointed members of the National Committee of Political Consultative Conference.

N. Z. Yung (of Shen-hsin Cotton Textiles) and Kuo Ti-huo (David Kwok of Wing On Cotton Textiles) were given similar positions. In Kiangsu Province Hou Te-pang (chairman of the board of Yung-li Chemical Industries of Nanking), Chang Ching-li (of Ta-sheng Cotton Mill, Nan-t'ung) and Yung Te-sheng (of Shen-hsin Cotton Mills, Wu-hsi)

5. Hsing-tao Jih-pao [Hsing Tao Daily] Hong Kong, June 6, 1955.

472 were appointed members of the National Committee
475 of Political Consultative Conference. Liu Kuo-chün (Ta-ch'eng Cotton Mill, Ch'ang-chou) was appointed a member of the Kiangsu Provincial People's Council.

These industrial leaders had hoped that by accepting government positions they might be able to maintain independence of management under the general plan mapped out by the government; but the experience of "joint enterprise," as the Communists interpret it, has disillusioned them.

Shareholders, too, have seen that the government's promise of an 8 per cent dividend is a ruse. Whenever a sharehold's total dividends reach a fair amount he must buy non-negotiable government bonds; this is not much different from straight confiscation.